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Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 EB-03 L-01 INR-05

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---------- 013412
R 161829Z OCT 74
FM USMISSION EC BRUSSELS
TO SECSTATE WASHDC 7630
INFO AMEMBASSY BERLIN
AMEMBASSY BUCHAREST
AMEMBASSY BUDAPEST
AMEMBASSY HELSINKI
AMEMBASSY MOSCOW
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY WARSAW
USMISSION GENEVA

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LIMDIS

E.O. 11652: N/A
TAGS: ETRD, EEC, FI, CZ, GATT
SUBJ: FINLAND-CZECHOSLOVAKIA TRADE AGREEMENT

REF: A) EC BRUSSELS 7837 (NOTAL)
B) HELSINKI 1975 (NOTAL)

1. SUMMARY: AS PART OF A CAMPAIGN TO SMOOTH THE WAY FOR GATT CONSIDERATION OF FINLAND'S AGREEMENTS WITH EASTERN EUROPEAN COUNTRIES, FINNISH OFFICIAL KOSKINEN VISITED BRUSSELS OCT. 15-16. IN CALL ON AMBASSADOR GREENWALD, KOSKINEN OUTLINED SUBSTANCE OF AGREEMENTS, PLANS FOR FUTURE NEGOTIATIONS, AND GATT PRESENTATION. AMBASSADOR GREENWALD EXPRESSED THE PERSONAL VIEW THAT SUCH AGREEMENTS COULD HAVE AN ADVERSE IMPACT ON US EXPORTS. A POLICY RECOMMENDATION IS SET OUT IN PARA 8
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OF THIS MESSAGE. END SUMMARY.

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2. YRJO-KOSKINEN, AN OFFICIAL OF THE FINNISH MINISTRY
OF FOREIGN AFFAIRS, AND TALVITIE, FINNISH AMBASSADOR TO
THE EC, CALLED ON AMBASSADOR GREENWALD OCTOBER 15 TO
DISCUSS TRADE AGREEMENTS BETWEEN FINLAND AND EASTERN
EUROPEAN COUNTRIES, AND TO URGE US SUPPORT IN GATT.
THEY ARE TALKING WITH THE COMMISSION ON OCTOBER 16.

3. FINLAND HAS NOW NEGOTIATED AGREEMENTS WITH THREE
EASTERN EUROPEAN COUNTRIES, BULGARIA, HUNGARY, AND
CZECHOSLOVAKIA. IN KOSKINEN'S VIEW, THE CZECH AGREEMENT
POSES QUESTIONS WHICH THE OTHERS DO NOT. FINLAND TREATS
BULGARIA AS AN LDC, WHICH MEANS THAT EFFECTIVE RECIPROCITY
IS NOT ESSENTIAL. HUNGARY HAS A CUSTOMS TARIFF WHICH MAY
HAVE TRADE SIGNIFICANCE SO THAT IN THE HUNGARIAN CASE A
FREE TRADE AGREEMENT MAY PROVIDE RECIPROCITY. THE BASIC
PROBLEM OF RECIPROCITY WAS MOST DIFFICULT IN THE CASE OF
CZECHOSLOVAKIA, A DEVELOPED SOCIALIST COUNTRY WHERE THE
TARIFF HAS NO TRADE SIGNIFICANCE. THE FINNISH SOLUTION
IN THIS CASE WAS INCLUSION OF A PROVISION STATING THAT
CZECHOSLOVAKIA WILL USE OTHER MEANS AVAILABLE TO IT
(I.E. MEANS OTHER THAN TARIFF OR OR LIBERALIZATION) TO
ENSURE THAT EQUAL TRADE ADVANTAGES ACCRUE TO EACH PARTNER.
KOSKINEN DESCRIBED THIS CLAUSE AS A REAL BREAKTHROUGH
IN NEGOTIATIONS WITH STATE TRADING COUNTRIES (SEE REF B,
PARA 6). ALL THREE AGREEMENTS ALSO INCLUDE SAFEGUARD
CLAUSES TO PROTECT FINLAND AGAINST EE EXPORTS AT
EXCEPTIONALLY LOW PRICES (DUMPING).

4. KOSKINEN SAID FINLAND IS ALSO CONSIDERING TRADE
AGREEMENTS WITH POLAND AND THE GDR. RUMANIA IS, LIKE
BULGARIA, REGARDED AS AN LDC BY FINLAND AND SEEMS SATIS-
FIED WITH THE PRESENT TREATMENT UNDER FINLAND'S GSP.
THUS NO AGREEMENT WITH RUMANIA IS PLANNED. POLAND CLAIMS
TO BE DEVELOPING A CUSTOMS TARIFF ALONG HUNGARIAN LINES
SO THE CZECH CLAUSE WOULD NOT BE NECESSARY TO ACHIEVE
EFFECTIVE RECIPROCITY AND THE HUNGARIAN MODEL CAN BE USED.
THE "BREAKTHROUGH" CLAUSE WOULD BE NECESSARY IN THE CASE
OF THE GDR WHICH HAS NO CUSTOMS TARIFF IN THE USUAL SENSE.

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5. KOSKINEN ENDED HIS DESCRIPTION OF THE STATE OF
FINNISH NEGOTIATIONS BY SAYING THAT HIS GOVERNMENT WAS
SEEKING THE SUPPORT OF THE US AND THE EC IN THE GATT
CONSIDERATION OF THE THREE AGREEMENTS ALREADY NEGOTIATED.
(THESE AGREEMENTS HAVE NOT YET, HE NOTED, BEEN FORMALLY
NOTIFIED TO GATT; THEY AWAIT RATIFICATION BY THE FINNISH
PARLIAMENT.)

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6. IN THE COURSE OF THE ENSUING DISCUSSION, AMBASSADOR GREENWALD GAVE SOME PERSONAL REACTIONS, POINTING OUT HE HAD NO INSTRUCTIONS FROM WASHINGTON. HE THOUGHT THESE AGREEMENTS, INCLUDING THE SO-CALLED "BREAKTHROUGH" CZECH AGREEMENT, COULD HAVE AN UNFORTUNATE EFFECT ON THE TRADING SYSTEM GENERALLY AND ON US TRADE IN PARTICULAR. IF THE FINNISH "EXPERIMENT" WAS SUCCESSFUL IN INCREASING FINLAND'S SHARE OF EASTERN EUROPEAN IMPORTS FROM THE WEST, OTHER EFTA COUNTRIES AND THE EC WOULD FOLLOW SUIT IN EXTENDING PREFERENTIAL TREATMENT TO THE STATE TRADING COUNTRIES. COUNTRIES LIKE THE US WOULD HAVE THEIR COMPETITIVE POSITIONS ADVERSELY AFFECTED, NOT ONLY IN EASTERN EUROPE BUT ALSO IN THOSE WESTERN COUNTRIES WHICH GIVE THE STATE TRADING COUNTRIES DUTY-FREE TREATMENT AS A RESULT OF THE "FREE TRADE AREA" AGREEMENTS. WHATEVER THE LEGAL OR POLITICAL ARGUMENTS IN THE FINNISH CASE, AMBASSADOR GREENWALD SAID, ON A PERSONAL BASIS, HE BELIEVED THAT THE POSSIBILITY OF OTHER EFTA COUNTRIES AND THE EC FOLLOWING THE FINNISH APPROACH COULD HAVE TRADE IMPLI-CATIONS WHICH WOULD HAVE TO BE CAREFULLY WEIGHED IN WASHINGTON.

7. KOSKINEN AGREED THAT THE EFFECT OF SUCH AGREEMENTS WOULD PROBABLY BE TO GIVE THE WESTERN COUNTRY INVOLVED A LARGER SHARE OF THE PRE-DETERMINED (IN THE ECONOMIC PLAN) "PIE" OF IMPORTS FROM THE WEST BY THE SOCIALIST COUNTRY. HE DID NOT SEE MUCH LIKELIHOOD OF STATE-TRADING COUNTRIES BEING WILLING, IN THE FORESEEABLE FUTURE, TO ALLOW IMPORTS TO COMPETE ON THE BASIS OF PRICE WITH DOMESTIC PRODUCTS OR TO AGREE TO NEGOTIATE ABOUT THE ROLE OF IMPORTS IN THE CENTRAL PLAN. BUT HE ARGUED THAT THE FINLAND-CZECHOSLOVAKIA AGREEMENT MIGHT NOT TRIGGER SIMILAR AGREEMENTS BY OTHER WESTERN COUNTRIES. HE QUOTED LIMITED OFFICIAL USE

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ONE OF HIS "SCANDINAVIAN COLLEAGUES" AS SAYING THAT HIS COUNTRY "WOULD NOT BE PERMITTED" TO FOLLOW THE FINNISH LEAD. PRESUMABLY THE US WOULD PREVENT IT.

8. COMMENT. THE FINNISH NEGOTIATIONS CLEARLY RAISE PROBLEMS IN BOTH TRADE POLICY AND POLITICAL TERMS. FINNISH RELATIONS WITH EASTERN EUROPE ARE WIDELY REGARDED AS SUI GENERIS. IT MAY BE POSSIBLE TO LIMIT THE PROLIFER-ATION OF AGREEMENTS AKIN TO THE FINLAND-CZECHOSLOVAKIA-HUNGARY-BULGARIA AGREEMENTS. THIS MIGHT BEST BE ACCOM-PLISHED BY TAKING A HARD, NEGATIVE LINE ON THE FINNISH AGREEMENTS. AT THE APPROPRIATE POINT, THE US COULD YIELD, BUT ON THE BASIS THAT THESE INTRINSICALLY UNDESIRABLE ARRANGEMENTS WOULD BE TOLERATED ONLY BECAUSE OF FINLAND'S SPECIAL CIRCUMSTANCES, AND THAT SIMILAR AGREEMENTS, IF

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ENTERED INTO BY OTHER COUNTRIES, WOULD BE FLATLY OPPOSED.
GREENWALD

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